

Message Text

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ACTION EA-12

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CINCPAC
AMEMBASSY BERN
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SUBJ: GOA FY 79 BUDGET: LITTLE STIMULUS FOR AUSTRALIA'S
IMPORT MARKET: INVESTMENT PROSPECTS IMPROVED

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1. SUMMARY
GOA FY 79 BUDGET MAY BE SUCCESSFUL OVER THE LONG RUN IN
INDUCING RECOVERY WITH THE HELP OF FOREIGN INVESTMENT, BUT MOST
OBSERVERS FEEL UNEMPLOYMENT WILL CONTINUE TO PLAGUE THE ECONOMY
THROUGH THE COMING YEAR. IF WAGES CAN BE HELD IN LINE, THIS
YEAR'S BUDGET MAY HELP GOA TO COPE WITH INFLATION, AND GOA HOPES

THIS WILL PROVE ATTRACTIVE TO U.S. AND OTHER FOREIGN INVESTORS. HOWEVER, THE BUDGET OFFERS LITTLE PROMISE FOR THE TYPE OF ECONOMIC RECOVERY THAT WOULD QUICKLY STIMULATE AUSTRALIA'S IMPORT DEMAND, AND THIS COULD CONSTRAIN ANY SIGNIFICANT EXPANSION OF DIRECT US SALES TO AUSTRALIA IN THE NEAR FUTURE. END SUMMARY

2. GOA'S FY 79 BUDGET IS NOT DESIGNED TO BE EXPANSIONARY. THE BUDGET DOCUMENT STATES THAT "THE DEGREE OF UNEMPLOYMENT AND UNDER-UTILIZATION OF CAPACITY THAT NOW EXISTS IS NOT PRIMARILY THE PRODUCT OF DEFICIENT DEMAND IN THE PRIVATE SECTOR .. THAT CAN BE LASTINGLY BOOSTED TO ANY DESIRED DEGREE BY CONVENTIONAL FISCAL/MONETARY STIMULUS." IT FUTHER NOTES THAT "AN ATTEMPT TO FORCE THE PACE OF AGGREGATE DEMAND GROWTH WOULD TEND TO RESULT MORE IN A HIGHER PRICE LEVEL AND ADVERSE BALANCE OF PAYMENTS RESPONSE THAN ENHANCED DOMESTIC ACTIVITY."

3. THE BUDGET IS AIMED AT ENCOURAGING INVESTMENT BY REDUCING THE INFLATION RATE FROM 7.9 PERCENT IN THE YEAR ENDING JUNE 1978 TO 5 PERCENT BY NEXT YEAR. IF AUSTRALIA IS TO ACHIEVE THIS GOA, A LARGE AMOUNT OF WAGE DISCIPLINE WILL BE NECESSARY ALONG WITH THE BUDGET CONSTRAINTS, AND THIS MAY PROVE DIFFICULT TO ACHIEVE. A REDUCED BUDGET DEFICIT IS SLATED TO HELP HOLD GROWTH OF BROAD BASED MONEY SUPPLY (M 3) TO ABOUT 6 TO 8 PERCENT.

4. THE STRINGENT BUDGET PROVISIONS ARE ALSO PART OF THE GOA'S STRATEGY TO MAINTAIN AUSTRALIA'S STRONG STANDING IN INTERNATIONAL
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CAPITAL MARKETS. OVERSEAS BORROWING CONTINUES TO LOOK LARGE IN THE GOVERNMENT'S FINANCIAL PLANS. SINCE JUNE, THE BEGINNING OF THE PRESENT FY, THE AUSTRALIAN FEDERAL GOVERNMENT HAS BORROWED AUSTDOLS 477 MILLION FROM ABROAD. THIS IS COMPOSED OF AUSTDOLS 120 MILLION FROM THE NETHERLANDS, AUSTDOLS 195 MILLION FROM SWITZERLAND AND, MOST RECENTLY, AUSTDOLS 132 MILLION FROM FRG. THE GOA ANNOUNCED IT WOULD ARRANGE ADDITIONAL OVERSEAS LOANS "AS AND WHEN WE PERCEIVE THE NEED".

5. PRIME MINISTER FRASER, COMMENTING ON THE BUDGET TO THE PRESS, CALLED THE TREASURY FORECAST FOR A 5 PERCENT INFLATION RATE "THE LIGHT ON THE HILL". HE WENT ON TO COMPARE AUSTRALIA WITH WEST GERMANY AS AN ENCOURAGING PLACE FOR INVESTMENT. "THIS MEANS", THE PRIME MINISTER SAID, "IT IS NOT ONLY GOOD FOR INVESTORS OVERSEAS, BUT IN AUSTRALIA AS WELL--AND THAT MEANS MORE JOBS".

6. OTHER OBSERVERS, HOWEVER, ARE NOT AS SANGUINE AS THE PRIME MINISTER REGARDING THE NEAR FUTURE EMPLOYMENT RATE. THE BEST THE BUDGET DOCUMENT PROJECTS IS FOR THE UNEMPLOYMENT RATE TO REMAIN AT ABOUT ITS PRESENT LEVEL (ABOUT 6 PERCENT) FOR THE COMING YEAR. THERE IS A GENERAL FEELING, EVEN AMONG MANY LIBERAL PARTY SUPPORTERS, THAT THE EMPLOYMENT SITUATION WILL DETERIORATE,

PERHAPS CONSIDERABLY, DURING THE NEXT TWELVE MONTHS.

7. ACCORDING TO A GROUP OF POLITICALLY INDEPENDENT ECONOMISTS, THE GOA MUST AIM FOR AN ANNUAL GROWTH RATE OF 6 TO 7 PERCENT OVER THE NEXT THREE YEARS IF UNEMPLOYMENT IS TO BE REDUCED; THE BUDGET FORECAST IS FOR GDP GROWTH OF 4 PERCENT DURING YU79.

8. THE LACK OF EXPANSIONARY STIMULI FROM THE BUDGET DOES NOT AUGUR WELL FOR ANY SIGNIFICANT GROWTH IN AUSTRALIA'S IMPORT MARKET OVER THE COMING YEAR. IN ADDITION, THE NEW BUDGET GIVES AUSTRALIA'S ALREADY WELL PROTECTED ECONOMY FURTHER BARRIERS AGAINST OUTSIDE COMPETITION BY RAISING THE CUSTOMS DUTY ON EMPORTS ENTERING UNDER QUOTAS. OTHER FACTORS COULD OFFSET THIS TREND, BUT IT IS POSSIBLE TH
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DIRECT SALES OF U.S. GOODS TO AUSTRALIA WILL BE HELD DOWN IN THE NEAR FUTURE BY THE RESTRICTIVE PROVISIONS OF THIS YEAR'S GOA BUDGET.

9. ON THE OTHER HAND, THE INVESTMENT OULOOK SEEMS BRIGHTENED BY THE BUDGET PROVISIONS. WHILE OTHER FACTORS HAVE AN EquALLY HEAVY INFLUENCE ON INVESTMENT DECISIONS, THERE IS NOTHING IN THE IMPLICATIONS OF THIS YEAR'S GOA BUDGET THAT WOULD TEND TO DISCOURAGE POTENTIAL FOREIGN INVESTORS. FOREIGN INVESTMENT ALREADY ROSE IN THE PERIOD JUST PRIOR TO THE BUDGET PRESENTATION. NET INFLOW OF FOREIGN INVESTMENT AMOUNTED TO AUSTDOLS 407 MILLION IN JUNE QUARTER 1978 COMPARED WITH AUSTDOLS 116 MILLION IN THE PREVIOUS QUARTER. OF THAT PART OF FOREIGN INVESTMENT IDENTIFIED BY COUNTRY, OVER HALF (AUSTDOLS 213 MILLION) WAS FROM THE U.S. THE GOA IS OBVIOUSLY COUNTING ON THIS TREND TO CONTINUE, AND U.S. INVESTMENT FLOW TO AUSTRALIA PLAYS A LARGE ROLE IN THE GOVERNMENT'S ECONOMIC PLANS.

10. IN SUM, THE GOA'S FY79 BUDGET OFFERS LITTLE PROMISE FOR SIGNIFICANT EXPANSION OF U.S. EXPORTS TO AUSTRALIA DURING THE COMING YEAR, BUT THE ANTI-INFLATION BIAS APPARENT THROUGHOUT THE BUDGET MAY WELL PROVE ATTRACTIVE TO U.S. INVESTORS.

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